

I Executive Summary

*"It is our duty, quite simply,
to leave California a better
place than we found it."*

Governor Gray Davis, Governor's State
of the State Address, 2000

Governor Gray Davis, the Legislature and the people of the State of California should be commended for the investments made in our infrastructure during the past two and one half years. For the first time in decades, our leaders and our people are making the kind of difficult decisions that recognize the critical importance of housing, transportation systems, schools, public buildings, air, land and water resources, and yes, energy, for our economy and quality of life. Recent investments—especially those for education, transportation, housing, parks and water—are historic.

Over two years ago, prior to any whisper of an energy crisis, the Governor appointed the Commission to develop an infrastructure investment strategy for California's future. During the Commission's tenure, the emergence of this crisis has highlighted the impact of infrastructure on the daily lives of every Californian. We have been asked to analyze our State's needs and construct a framework for the State's future investments, absent political considerations. We must, therefore, say something that is almost never popular with those in political life, nor with the people who elect them: recent accomplishments are admirable, but the job is far from done. Our efforts must be sustained.

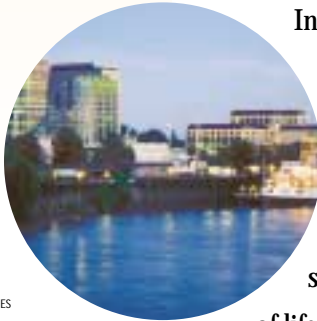


There have been many reports about infrastructure during the past two decades.

They have all called attention to the importance of infrastructure and have documented our underinvestment across a wide range of needs. Yet, the problem of underinvestment remained unsolved as we approached the 21st Century. Despite periodic downturns in the economy, the long-term outlook is bright. As the world's sixth largest economy, California has great strengths: the gateway to Asia and Latin America; a diversified economy; an entrepreneurial and skilled workforce; and, an unparalleled natural environment.



Infrastructure provides the foundation for a strong economy and will require responsible, ongoing investment to maximize the benefit of our strengths.



The Commission's work confirms the persistence and seriousness of our infrastructure deficit. Most of these findings are not new. While our gratitude for recent accomplishments is clear, our warning is equally heartfelt that such leadership and partnership must be permanent. In order for our quality of life to be improved and expanded to all Californians, there is no choice but to redouble our efforts and lay the groundwork for that prosperity. We can no longer live off the investments of past generations, for we will sacrifice not only today, but also the future of our children and our grandchildren.

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MIDDLE: CALIFORNIA, LOCAL
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TECHNOLOGY, TRADE AND COMMERCE AGENCY

Too often, California is a place where teachers, nurses, police and firefighters struggle to find affordable housing for their families, where time spent in traffic rivals time spent at home, and where a majority of our power plants, schools, hospitals, and public buildings are growing old and desperately in need of repair. Over the next 20 years, California will add 6 million jobs and 12 million people who will need at least 4 million new homes. This growth in population will come primarily from children born to existing families, a fact not yet understood by most Californians. For both today and tomorrow, energy is not the only area where we are “living on the edge;” there are other infrastructure challenges in waiting.



PHOTO CREDIT: SAN JOAQUIN D. KONKE/CALIFORNIA DEPARTMENT OF WATER RESOURCES

Some California Facts:

- California's home ownership rate is 49th in the nation.
- Each year, California produces 50,000 - 70,000 fewer homes than needed.
- In 1999, California motorists spent more than 800,000 hours on congested roads each day, at a daily cost of \$8 million.
- A majority of our school facilities is more than 25 years old.
- We need to build seven new classrooms per day for five years to keep pace with expected growth.
- Southern California studies predict that passenger demand in 2020 will exceed current airport capacity by more than 50%.
- Brownfields, which are abandoned and contaminated lands and facilities, are estimated to constitute 5-10% of California's urban real estate (260,000 to 520,000 acres).
- During the past 100 years, more than 90% of California wetlands have been lost, with negative impacts on water quality, flood protection, and habitat.
- In 1999, there were 694 beach closure days and 4,186 beach warning days due to bacterial contamination.
- It is estimated that earthquake retrofitting will cost California's 473 hospitals \$5-10 billion over 10 years.
- Almost 50% of the in-state electrical generation capacity is from facilities that are more than 30 years old.
- Nearly three-quarters of the State's courthouses were built prior to 1980 and over half were built before 1970.

“Only 8 percent of Californians recognize that the single biggest factor contributing to the State's population growth is children born to current residents, according to a recent statewide poll.”

Public Policy Institute of California,
Special Survey on Growth, May 2001



Century Alameda Child Development Center, owned by Century Housing and operated by Para Los Niños, provides much needed childcare for 120 children of low income and homeless families in downtown Los Angeles.

PHOTO CREDIT: CENTURY HOUSING, CULVER CITY, CALIFORNIA

This Commission recognizes that infrastructure planning and investment is a shared responsibility for all Californians. While the State must play a leadership role, shared responsibility means that an effective investment strategy requires the effort and coordinated planning of all of California's infrastructure investment partners—the federal, state and local governments, regional agencies, private and philanthropic sectors, and most importantly California's people. Over the last two years, we have learned that in good economic times or bad, we need to increase our infrastructure investment, use our existing capacity better, and plan better for our needs across all infrastructure systems.

A New Beginning

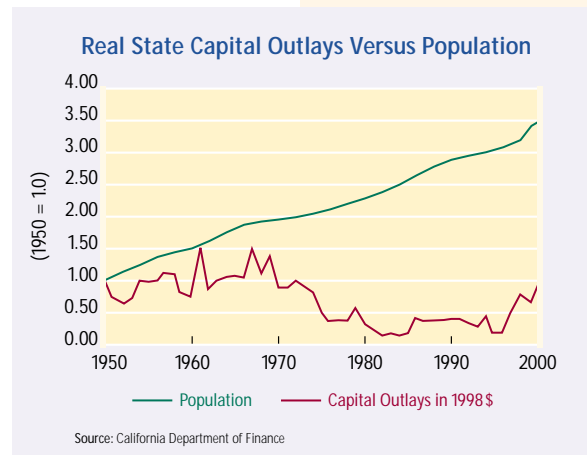
The Commission is optimistic that Californians are up to the challenge. We have seen an important turnaround in the attention given to and action on infrastructure investment over the past two years. As we've stated, Governor Davis and the Legislature approved record levels of direct spending through the State budget. In addition, we've seen significant actions taken by local government, voters and the civic sector, in partnership with the State. Important and indeed historic steps include:

- An increase of more than \$8.6 billion to relieve traffic congestion, improve goods movement and maintain local transportation systems
- \$450 million in new funding for housing—the first State housing dollars in more than a decade
- 26 new power plants permitted by the California Energy Commission, since January 1999, with 18 under construction by the end of summer 2001
- More than \$4 billion in parks and water bonds, the largest commitment of state funding in the nation's history
- Over \$230 million dollars allocated for the California Infrastructure and Economic Development Bank, which will leverage approximately \$565 million in loans
- A Jobs-Housing Balance Improvement Program, to help cities and counties create more housing in job-rich communities and jobs in housing-rich communities
- Voter approval of \$9.2 billion in new school bonds in 1998
- The launching of a five-year, \$175 million California initiative to conserve open space, farmland, and critical natural areas, by the David and Lucile Packard Foundation
- Allocation of over \$50 million for the State's first comprehensive funding to provide access to persons with disabilities in our State-owned buildings

Meeting the Challenge

As shown in the graph, we have begun a substantial turnaround in infrastructure investment. However, the job of catching up and preparing for the future is far from over. As Californians have done throughout our history, we must rise to today's challenge and create a more prosperous tomorrow.

We must continue to reduce the infrastructure deficit we have inherited. Our systems must be brought to a higher standard to better serve California's residents, visitors, businesses and institutions. We know that we will need substantial new infrastructure capacity to accommodate our growing economy and population. New technologies—such as the Internet and energy-efficient design and equipment—will lead to savings, increased access and improved service, but to achieve these benefits we must invest now.



Our Vision and Guiding Principles

The Commission has set forth a vision and created guiding principles and investment criteria as a framework for its decision-making. The framework is grounded in simple, but traditional California values: continue, protect and improve our existing investments, and build smarter when creating new capacity to meet future needs.

Guiding Principles Framework

I. IMPROVE OUR QUALITY OF LIFE. We need to achieve success in: Economic Growth, Environmental Quality, and Social Equity—to leave a more sustainable California to future generations.

II. MAKE THE BEST OF OUR ASSETS. We need to get the most from our use of natural resources, human capital, investment dollars, and existing infrastructure. To do so, we must use all of these precious resources and investment dollars more efficiently than in the past.

III. PROVIDE EQUAL ACCESS TO OPPORTUNITY. We must invest to ensure that all Californians have equal access to opportunity including the benefits provided by our infrastructure.

“There comes a time and a place when people must step back and reassess their future. For us the dawn of a new millennium is the time. Our majestic State, with the great economic responsibility it carries, is the place; and the pioneering and diverse individuals of California are the people.”

Maria Contreras-Sweet
Commission Chair
Secretary, California Business,
Transportation and Housing Agency

The 20-Year Investment Framework

The Commission developed a 20-year framework to guide our investments for the future. Our investment framework provides a starting point for the near term, but also guides our process for the long term. In developing this framework, we recognized that infrastructure needs will change, priorities will shift, and new technologies, practices and resources

will become available to help us meet new challenges in ways we cannot yet imagine.

To establish current infrastructure investment priorities, the Commission focused on eight building blocks of California's future that merit particular attention: Educational Facilities, Energy, Housing, Land Use, Public Facilities, Technology, Transportation, and Water. Meeting our needs in these areas will require increased and sustained investment, better use of existing capacity, and better planning that recognizes the interdependence of infrastructure systems such as land use, housing and transportation. These investments will improve infrastructure services and efficiency and reduce costs over the lifespan of our facilities.



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DEPARTMENT OF WATER RESOURCES

Urgent and Immediate Priorities

Although all of our infrastructure needs are important, some are so fundamental to our economy and quality of life and are under such severe strain, that they require immediate action. Therefore, the Commission recommends taking action on these particular needs:

- **NEW STATE SCHOOL BOND MEASURE.** Pass a new state bond measure as soon as possible to continue support for repairing and modernizing our K-12 and higher education facilities. To provide

schools and modernized school facilities where they are most needed, funding priority should be considered for projects that address per capita need, and incorporate joint-use, resource efficiency, technological innovation and integrated land use planning.

• **STATEWIDE ENERGY INFRASTRUCTURE POLICY.**

Pursue a strategy to further diversify our energy supply and provide surplus capacity, including traditional and alternative electricity generation, and sufficient refinery capacity in order to meet our long-term energy goals. Transmission and distribution networks, whether electric grid or natural gas pipeline, must be vigilantly built and maintained. We must support the development, testing and market introduction of new energy technologies and industries for both conventional and renewable sources of power. We must make a permanent commitment to maintaining California's place as a national leader in energy efficiency.

- **INCREASED HOUSING PRODUCTION.** Provide incentives and regulatory reform measures to increase the supply and affordability of housing throughout our State. Reward communities that meet or exceed their housing production goals. Resolve construction defect and defect litigation issues and reform regulations to redevelop brownfields.

• **LOCAL FINANCING VOTER APPROVAL AT 55% FOR TRANSPORTATION.**

We must maintain and build upon our state and local transportation systems. Commitments from the state government must be maintained and increases in federal funding aggressively sought. Another critical component of this funding mix is local. Pass a constitutional amendment to lower the vote threshold to 55% for local bonds and sales tax initiatives to generate revenues for local and regional infrastructure plans. This reform is especially urgent for local transportation agencies whose current sales tax measures are due to expire. Last year voters overwhelmingly approved an initiative enabling school districts to pass bond measures with a 55% supermajority. The proposed 55% approval for transportation should be tied to specific, voter-approved local and regional plans for community development that complement interregional and statewide needs. The 55% threshold would increase local governments' ability to effectively partner with the state and federal governments to make infrastructure investments and appropriately build and care for local systems.

- **STATEWIDE WATER INFRASTRUCTURE PLAN.** Develop and agree upon projections for statewide and regional water needs as a foundation for developing a statewide water infrastructure plan. This plan must be integrated with other infrastructure systems. A long-term plan will help provide a reliable water supply and improved water quality.



PHOTO CREDIT: SAN DIEGO METROPOLITAN TRANSIT DEVELOPMENT BOARD

*San Diego Trolley at
Convention Center
West Trolley Station,
San Diego, California*

Building a Sustainable Foundation for Investment



Palm Canyon Drive,
Palm Springs, California

PHOTO CREDIT: R. HOLMES/CALIFORNIA TECHNOLOGY,
TRADE AND COMMERCE AGENCY

Sustainability: We must be ever-mindful of the impact of our decisions upon the future health of our people, our environment and our economy. Responsible investments and planning assure the most efficient and strategic use of our assets and our limited financial and natural resources, for today and tomorrow.

The Commission determined that certain crosscutting reforms are required to fund, plan and integrate our long-term strategies across all infrastructure categories. Among the many options presented in the report, the Commission highlights and recommends:

- **A CALIFORNIA INFRASTRUCTURE PARTNERSHIP.** Create a new, permanent, public-private entity, the California Infrastructure Partnership, whose mission will be to support needed and cost-effective infrastructure planning and investment for our future. Through analysis, dialogue and collaboration, the Partnership can be the ongoing mechanism through which, together, we can achieve the vision for California.
- **A CALIFORNIA INFRASTRUCTURE FUND.** Establish a permanent infrastructure investment fund separate and distinct from those funds currently earmarked or budgeted for infrastructure. For much of the past 40 years, infrastructure funding has been uncertain and unreliable. This fund would require a yearly set-aside appropriation from the General Fund. With an annual appropriation initially of at least 1% of General Fund revenues, assuming growth of at least 5% annually in the General Fund, the result could be a commitment of approximately \$5 to \$10 billion for infrastructure projects over 10 years, beyond the requirements of existing law. Annual and long-term priorities for investments from the fund would be determined through the existing budget process to enable the Governor and the Legislature to respond flexibly to changing infrastructure needs and priorities.
- **STATE-LOCAL FINANCE REFORM.** Reform state tax policy to improve land use decisions. Current tax policy provides a disincentive for housing production, distorts land use decisions, and hampers the ability of local governments to provide necessary services for new residents.
- **RESPONSIBLE LAND USE IN CALIFORNIA'S COMMUNITIES.** Promote policies and practices that balance the competing needs of residential, commercial, agricultural and environmental uses for scarce land resources. Require and provide financial support for regional housing plans to ensure that sufficient housing is available for our people. Expand initiatives for new models of conservation and development. These include transit-oriented development, energy-efficient development, compact and mixed-use development, infill development and creation of urban parks.

Meeting Our Financing Challenge

The Commission recognizes that these recommendations call for a commitment of resources well above the historic level of investment, but infrastructure financing may be easier than it might appear at first glance. California is the world's sixth largest economy. To spend an additional \$100 billion on infrastructure over the next decade would require less than 1% of our annual income as a state. In addition, the responsibility of planning and financing California's infrastructure does not rest solely with the State. Rather, it is shared by the State and its partners, including regional and local agencies, the federal government, and the private and philanthropic sectors. In the end, meeting our infrastructure challenge will be a test of our will as a people, not of our wealth as a state.



A Call to Action

This report is not an end, it is a beginning, a chance to end the cycle of infrastructure deficits, a chance to end the uncertainty about whether California will have enough housing, enough schools, enough water and enough transportation capacity for our residents and businesses.



Adopting these and other recommendations will require a bold new spirit of partnership and commitment among all Californians. Only if we act now and act together, will we leave a legacy to our children and grandchildren worthy of the California Dream.



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